MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

DAU5014 – AUDITING 1

(All sections / Groups)

15 MARCH 2021
9.00 am – 12.00 pm
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **4** pages with **4** questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

PART A

Nancy is an investor who decides to invest her fund in Ekovest Sdn Bhd Company, a construction company based in Kuala Lumpur. Not long after her investment in the company, there is a conflict between the management of the company and the main shareholder, where the management of the company decides to approve a huge development project that will favour the management but not maximizing the shareholder's value. In addition, the shareholder also having a trust issue with the management team regarding the financial statements prepared by them as the shareholders once found an error in the financial statements.

Required

(a) Based on above situation, indicate who is the agent and the principal, based on the agency theory concept. (2 marks)
(b) Briefly explain what are the possible cause for this conflict? (2 marks)
(c) How the role of auditing could interfere and help to overcome the above conflict? (4 marks)
(d) Briefly explain the type of audit that suits above situation. (2 marks)
(e) List any **THREE (3)** types of related service that may be provided by an accounting firm, aside from audit service. (3 marks)

PART B

(a) Jep is an auditor from BDP Chartered Accountant audit firm. Recently, the audit firm has been appointed as AAX Sdn Bhd auditor, where his neighbour's wife also work there as a clerk.
(b) Due to the recent current pandemic, Ahmad, an auditor, started his new venture as a side business with his friends where they started a business called Easytravel Sdn Bhd that created travel apps. The audit firm where Ahmad work has been appointed to audit this company's financial statements and Ahmad also involved with the audit assignment.
(c) Katie is an audit manager of Tan & Associates audit firm. Recently her team has been appointed to audit Skpress Investment Sdn Bhd where she had an investment in the company amounting RM50,000.
(d) Eddie Bin Adam C.A. (M) is an auditor from Bakar, Rajah & Associates. Recently Eddie and his audit team has been appointed to audit Hiapteck Resources Sdn Bhd.

Required

Based on each independent situations above, indicate whether the individual mentioned above is allowed or prohibited from acting or accepting an appointment as the auditor of the company. Briefly explain why for each situation. (8 marks)

(e) Aditya, Jaya & Co. has been appointed as an auditor for Powermetal Corporation Sdn Bhd for almost 6 years where their audit appointment has been renewed for three times. At the seventh year of appointment, the audit partner decides that they should resign.

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Required
Explain the resignation process that the audit firm will go through as per section 281 and 282 of Companies Act 2016. (4 marks)

(Total: 25 marks)

QUESTION 2

PART A

(a) In one of the phases of audit, the auditor are required to prepare an engagement letter that serves as a contract between both the auditor and the audit client.

Required
Provide any **THREE (3)** contents that should be included in the engagement letter. (6 marks)

(b) Umar is a forensic accounting student and currently do a research on fraud and accounting. He recently come across the term "fraudulent financial reporting" and "misappropriation of asset" in one of the article journal that he read.

Required
Briefly explain to Umar on fraudulent financial reporting and misappropriation of asset. Provide **ONE (1)** example for each of the term. (6 marks)

(c) Kirana is an audit senior where she and her audit team members currently assigned to audit the financial statements of ZRB Berhad. Provide any **TWO (2)** examples of situation where Kirana can applies the professional skepticism during the audit. (4 marks)

PART B

(a) List the **FOUR (4)** types of audit report. (4 marks)

(b) Below are the list of independent situations where the auditor gathers the audit findings upon completing the audit.

No.	Situation	Type of audit report to issue
1.	The auditor discovers that there is no material misstatements found in the financial statements and are satisfied that the financial statements reflected the true and fair view of the company's transactions.	
2.	There is a highly material limitation on scope when the auditor conduct the audit. The auditor also is unable to gather a sufficient and appropriate evidence to form opinion on the financial statements.	

Continued…

3.	Upon conducting the audit, the auditor is having a huge disagreement with the management on the method used by the management to record the asset valuation for one of the company's asset. The disagreement is so highly material that the auditor conclude that the financial statements as a whole do not give a true and fair view in accordance with approved accounting standards.	

Required
For each of the situations above, indicate the appropriate type of audit report that the auditor may issue. *Write your answer in the answer sheet provided.* (3 marks)

(c) Provide any **TWO (2)** level of materiality. (2 marks)
(Total: 25 marks)

QUESTION 3

PART A

Zana is a store keeper of Shoo Berhad, a company that manufacture and sells shoes. She is responsible to monitor the movement of the warehouse inventory including she need to keep track of the inventory record every week and submit the report to her manager. Every month, she will physically count the inventory and update the inventory into the system herself, without a verification from her manager. She is also responsible to lock the warehouse everyday but there are times where she forgot to do so. She is curious why there is a need to have a control on the inventory as she thinks that nobody would steal the shoes.

Required
(a) List the **FOUR (4)** objectives of internal control. (4 marks)

(b) Based on above situation, explain **THREE (3)** internal control weaknesses in Shoo Berhad company. (6 marks)

(c) Suggest any **FIVE (5)** examples of internal control activities that may be implemented in Shoo Berhad. (5 marks)

PART B

(a) Give any **FIVE (5)** examples of audit evidence. (5 marks)

(b) Reliability refers to whether a particular type of evidence can be relied upon to signal the true state of an assertion or audit objective.

Required
List the **FIVE (5)** factors that should be consider when determining the reliability of audit evidence (5 marks)
(Total: 25 marks)

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QUESTION 4

PART A

(a) List any **SIX (6)** indications of going concern uncertainty for a company. (6 marks)

(b) Provide any **FIVE (5)** factors that may indicate an increase in client inherent risk. (5 marks)

PART B

(a) As it is common for external auditor to have a doubt on internal auditor when conducting audit, the external audit team from Hans & Yang currently is assessing the internal auditor team of Cypark Sdn Bhd.

Required
List and explain the **FOUR (4)** important criteria that the external auditor will refer to when assessing the internal auditor of Cypark Sdn Bhd. (8 marks)

(b) List the **FOUR (4)** types of audit that internal auditor may involve in. (4 marks)

(c) Briefly explain what is internal auditing. (2 marks)

(Total: 25 marks)

End of Paper